

NEWARK CHARTER SCHOOL
(A Component Unit of the State of Delaware)
Newark, Delaware

FINANCIAL STATEMENTS

JUNE 30, 2007

NEWARK CHARTER SCHOOL
(A Component Unit of the State of Delaware)

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September 25, 2007

Board of Directors
Newark Charter School
Newark, Delaware

We have audited the accompanying basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Newark Charter School (the "School"), Newark, Delaware (a component unit of the State of Delaware) as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the School's financial statements as of and for the year ended June 30, 2006 and, in our report dated November 29, 2006, we expressed an unqualified opinion on those fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Newark Charter School as of June 30, 2007, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2007, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 3 through 10 and page 28, respectively, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited

Board of Directors
Newark Charter School

procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Newark Charter School's basic financial statements. The schedules on pages 29-31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barbacane, Thornton & Company

BARBACANE, THORNTON & COMPANY

**MANAGEMENT'S DISCUSSION
AND ANALYSIS SECTION**

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the School's financial performance provides an overview of the School's financial activities for the year ended June 30, 2007, which was the School's sixth full year of operations and also its fourth year of operations in its newly constructed 59,000 square foot facility located at 2001 Patriot Way in Newark. Please read it in conjunction with the Independent Auditors' Report and the School's financial statements.

FINANCIAL HIGHLIGHTS

The School's net assets increased by \$1,298,429, or 41 percent, and totaled \$4,464,417 as of June 30, 2007.

The primary changes in the School's Statement of Net Assets compared to FY 2006 were an increase in cash in the amount of \$3,904,986; an increase in capital assets net of depreciation in the amount of \$7,505,433 offset by an increase in its note payable balance of \$8,567,509; and an increase in accounts payable in the amount of \$1,999,350. The note payable balance increased as the result of building a new elementary school during this fiscal year. The School's balance related to current liabilities increased by \$1,073,998 to \$2,761,750, primarily as the result of a \$1.8 million payable on the K-4 building that was paid in July 2007, in addition to growth in the year-end accruals for expenditures, salary and associated taxes and benefits. Most of these nonbuilding-related accruals relate to the fact that the School's teaching staff works on a 10-month school year basis and is compensated over a full 12-month payment period, resulting in a two-month "lag" accrual at June 30.

Total revenues for the year (both general and program-related) increased by \$1,103,379, or 19 percent, in FY 2007 compared to FY 2006, totaling to \$5,919,229 for the year. General revenues increased by \$801,751 during FY 2007, primarily due to increased state reimbursement rates. Enrollment was consistent at 648 for FY 2007 and FY 2006. The 648 figure represents the School's maximum enrollment per its charter. Operating grants for FY 2007 decreased slightly from the previous year by \$43,963 to \$283,152, and capital grants increased by \$345,591 due to contributions received for construction of a new elementary school.

Total expenses (gross) for FY 2007 totaled to \$5,724,179, an increase of \$412,848, or eight percent, compared to FY 2006. Instructional, facility-related and transportation-related costs all increased in FY 2007 compared to FY 2006. The primary reasons for these increases were the increased reimbursement rates cited above, increased interest expense due to new borrowing and general economic conditions, particularly in regard to increased transportation (busing) costs.

USING THIS ANNUAL FINANCIAL REPORT

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole and then proceed to provide an increasingly detailed look at specific financial activities.

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

REPORTING THE SCHOOL AS A WHOLE

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment stability and facility conditions in arriving at a conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the School's major funds and fund financial statements provides detailed information about the most significant funds - not the School as a whole. Some funds are required to be established by State statute, while many other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions. The School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the Charter School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

The School is fiduciary for its student activity assets that, due to a fiduciary arrangement, can be used only for student activities. All of the School's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the School's other financial statements because the assets cannot be utilized by the School to finance its operations.

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$4,464,417 at the close of the fiscal year. Note that invested in capital assets are reported net of related debt and net of depreciation. The School uses capital assets to provide services; consequently, these assets are not available for future spending.

**Table 1
NET ASSETS**

	Governmental Activities	
	2007	2006*
Current and Other Assets:		
Cash and investments	\$ 6,479,638	\$ 2,574,652
Due from State of Delaware - interest earnings	15,401	10,373
Receivables	<u>13,796</u>	<u>-</u>
Total Current Assets	6,508,835	2,585,025
Noncurrent Assets:		
Capital assets, net of depreciation	15,313,095	7,807,662
Bond issuance costs	<u>533,656</u>	<u>-</u>
TOTAL ASSETS	<u>22,355,586</u>	<u>10,392,687</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	2,052,094	52,744
Accrued salaries and related costs	614,888	531,834
Capital lease liability	1,468	1,466
Due to State of Delaware - pension costs	93,300	67,694
Note payable	<u>-</u>	<u>420,260</u>
Total Current Liabilities	<u>2,761,750</u>	<u>1,073,998</u>
Noncurrent Liabilities:		
Compensated absences	223,700	233,283
Capital lease liability	719	2,187
Note payable	<u>14,905,000</u>	<u>5,917,231</u>
Total Noncurrent Liabilities	<u>15,129,419</u>	<u>6,152,701</u>
TOTAL LIABILITIES	<u>17,891,169</u>	<u>7,226,699</u>
Net Assets:		
Invested in capital assets, net of related debt	1,758,775	2,074,570
Restricted for debt service	1,049,715	68,782
Unrestricted	<u>1,655,927</u>	<u>1,022,636</u>
TOTAL NET ASSETS	<u>\$ 4,464,417</u>	<u>\$ 3,165,988</u>

* restated for comparative purposes.

A portion of the School's net assets represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the School's ongoing activities.

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The School is able to report positive balances in net assets, both for the government as a whole and for its separate governmental-type activities.

**Table 2
CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
REVENUES		
General revenues:		
Charges to school districts	\$ 1,968,516	\$ 1,824,372
Payments from primary government	4,045,578	3,650,873
Interest income	379,771	116,869
Program revenues:		
Operating grants and contributions	283,152	327,115
Capital grants and contributions	345,591	-
Total Revenues	<u>7,022,608</u>	<u>5,919,229</u>
EXPENSES		
Instructional services	4,213,346	4,051,914
Support services:		
Operation and maintenance of facilities	549,765	420,468
Transportation	555,742	451,638
Interest payments on long-term debt	405,326	387,311
Total Expenses	<u>5,724,179</u>	<u>5,311,331</u>
CHANGE IN NET ASSETS	<u>\$ 1,298,429</u>	<u>\$ 607,898</u>

Governmental Activities

Net assets of the School's governmental activities increased by \$1,298,429, and unrestricted net assets reflect a positive balance of \$1,655,927. The increase in net assets is primarily the result of increased state and local reimbursement rates and effective cost management.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues that include charges to School Districts, investment earnings and state entitlements must support the net cost of the School's programs.

	<u>2007 Services</u>		<u>2006 Services</u>	
	<u>Total Cost 2007</u>	<u>Net Cost 2007</u>	<u>Total Cost 2006</u>	<u>Net Cost 2006</u>
Governmental Activities:				
Instructional services	\$ 4,213,346	\$ 3,930,194	\$ 4,051,914	\$ 3,724,799
Support services:				
Operation and maintenance of facilities	549,765	204,174	420,468	420,468
Transportation	555,742	555,742	451,638	451,638
Interest on long-term debt	405,326	405,326	387,311	387,311
Total Expenses	<u>\$ 5,724,179</u>	<u>\$ 5,095,436</u>	<u>\$ 5,311,331</u>	<u>\$ 4,984,216</u>

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$5,095,436 of support as well as general revenues comprising 96 percent of total revenues.

THE SCHOOL'S FUNDS

The School's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$3,748,553 compared to last year's total of \$1,932,753. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>	Increase (Decrease)
Fund Balances:			
Reserved for encumbrances	\$ -	\$ 5,796	\$ (5,796)
Reserved for textbooks	-	846	(846)
Reserved - building	1,352,867	608,052	744,815
Reserved - debt service	1,049,715	68,782	980,933
Unreserved - general fund	<u>1,345,971</u>	<u>1,249,277</u>	<u>96,694</u>
 Governmental funds	 <u>\$ 3,748,553</u>	 <u>\$ 1,932,753</u>	 <u>\$1,815,800</u>

Governmental Funds

The School's fund balance increase is due to a variety of factors. The tables that follow assist in illustrating the financial activities and balance of governmental funds.

	<u>Total Governmental Funds</u>	
	<u>2007</u>	<u>2006</u>
REVENUES:		
Charges to school districts	\$ 1,968,516	\$ 1,824,372
State aid	4,045,578	3,650,873
Federal aid	137,915	222,794
Interest income	379,771	116,869
Contributions	<u>490,828</u>	<u>104,321</u>
TOTAL REVENUES	<u>7,022,608</u>	<u>5,919,229</u>
 EXPENDITURES:		
Current:		
Instruction	4,135,658	3,936,937
Operation and maintenance of facilities	364,516	235,086
Transportation	555,742	451,638
Debt service:		
Principal	6,671,303	1,126,913
Interest	405,326	387,311
Financing costs	533,656	-
Capital outlays:		
Property and equipment	<u>7,779,419</u>	<u>25,803</u>
TOTAL EXPENDITURES	<u>20,445,620</u>	<u>6,163,688</u>
 DEFICIENCY OF REVENUES UNDER EXPENDITURES	 <u>(13,423,012)</u>	 <u>(244,459)</u>

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

	<u>Total Governmental Funds</u>	
	<u>2007</u>	<u>2006</u>
(cont'd)		
OTHER FINANCING SOURCES (USES):		
Transfers in	2,165,293	-
Transfers out	(2,165,293)	-
Proceeds from financing	<u>15,238,812</u>	-
TOTAL OTHER FINANCING SOURCES	<u>15,238,812</u>	-
NET CHANGE IN FUND BALANCES	1,815,800	(244,459)
FUND BALANCES, BEGINNING OF YEAR	<u>1,932,753</u>	<u>2,177,212</u>
FUND BALANCES, END OF YEAR	<u>\$ 3,748,553</u>	<u>\$ 1,932,753</u>

The School's revenues and other financing sources exceeded expenditures for FY 2007 by \$1,815,800 resulting in an increase in fund balance. New long- and short-term financing proceeds were received during the FY 2007 year in the amount of \$15,238,812. The fund balances remain at a level comfortably adequate to provide for anticipated cash flow needs, including projected debt service levels.

GENERAL FUND BUDGET INFORMATION

The School's budget is prepared on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund. The School may amend its revenue and expenditure estimates periodically due to changing conditions. The original budget was not amended during fiscal year 2007.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 28.

Revenues

Charges to School Districts

The favorable variance of \$154,116 is attributable primarily to the utilization of prior year per-student local funding rates. According to Department of Education ("DOE") guidelines, revenue estimates for budgeting purposes cannot exceed prior year actuals. A local rate increase of \$225 for 648 students accounts for this variance.

State Aid

The favorable variance of \$381,578 is attributable primarily to the utilization of prior year per-student state funding rates. According to DOE guidelines, revenue estimates for budgeting purposes cannot exceed prior year actuals. A state rate increase of \$600 for 648 students accounts for this variation.

Interest Income

The favorable variance of \$107,232 is attributable to having excess cash during the fiscal year.

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Expenditures

Salaries

The unfavorable variance of \$171,755 is attributable to \$50,000 paid out in summer school, retirement and bonus monies not budgeted. The remainder represents teacher salaries budgeted at a rate not consistent with degree level and years of experience, as the budgeting was completed prior to this information being available.

Contractual Services

The favorable variance of \$124,079 is attributed to costs that were budgeted but actually charged to capital outlay due to construction of the new building.

Communications

The unfavorable variance of \$65,370 is attributable to \$56,500 being paid to COMTEC to install the new phone system for the K-4 school.

Repairs and Maintenance

The unfavorable variance of \$63,425 is attributable to the School's buying out the old copier lease to support the K-4 school for \$25,000 and \$17,000 building materials for the new K-4 school.

Property

The unfavorable variance of \$521,094 is attributable to the fact that the School was required to expend funds out of DFMS to support the new K-4 school opening - \$339,000 building invoices/contract and \$145,000 for engineers/construction managers prior to loan settlement.

CAPITAL ASSETS

The School has \$15,313,095 invested in capital assets net of depreciation, all of which is attributed to governmental activities. Acquisitions for governmental activities totaled \$7,736,789, and depreciation was \$231,356. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

DEBT ADMINISTRATION

As of July 1, 2006, the School had total outstanding debt of \$6,337,491. During the year, the School issued Revenue Bond, Series 2006, resulting in ending outstanding debt of \$14,905,000 as of June 30, 2007.

Other obligations include accrued vacation pay and sick leave for School employees. More detailed information about long-term liabilities is included in Note 4 to the financial statements.

**NEWARK CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

Fiscal year 2007 was the sixth year of operation as a functioning school. The School expects that its enrollment will increase to 1,298 (planned capacity) in FY 2008 due to the School's being granted a charter modification to expand its grade configuration to include grades Kindergarten through 4. Larger enrollment would result in an increase in state and local district revenues, as well as an increase in operating expenses.

The financial model the School has developed is based on the funding formula currently in effect under the Delaware Charter School Law. If the funding formula for charter schools changes, adjustments to the underlying assumptions of the model will have to be made.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the School office at (302) 369-2001.

BASIC FINANCIAL STATEMENTS SECTION

NEWARK CHARTER SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006*</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,213,022	\$ 1,897,818
Cash and cash equivalents - restricted	4,266,616	676,834
Receivables:		
Due from State of Delaware - interest earnings	15,401	10,373
Other	13,796	-
Total Current Assets	<u>6,508,835</u>	<u>2,585,025</u>
NONCURRENT ASSETS:		
Capital assets, net of depreciation	15,313,095	7,807,662
Bond issuance costs	533,656	-
Total Noncurrent Assets	<u>15,846,751</u>	<u>7,807,662</u>
TOTAL ASSETS	<u>\$22,355,586</u>	<u>\$10,392,687</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,052,094	\$ 52,744
Accrued salaries	614,888	531,834
Capital lease liability	1,468	1,466
Due to State of Delaware - pension costs	93,300	67,694
Notes payable	-	420,260
Total Current Liabilities	<u>2,761,750</u>	<u>1,073,998</u>
NONCURRENT LIABILITIES:		
Compensated absences	223,700	233,283
Capital lease liability	719	2,187
Note payable	14,905,000	5,917,231
Total Noncurrent Liabilities	<u>15,129,419</u>	<u>6,152,701</u>
TOTAL LIABILITIES	<u>17,891,169</u>	<u>7,226,699</u>
NET ASSETS:		
Invested in capital assets, net of related debt	1,758,775	2,074,570
Restricted for debt service	1,049,715	68,782
Unrestricted	1,655,927	1,022,636
Total Net Assets	<u>4,464,417</u>	<u>3,165,988</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$22,355,586</u>	<u>\$10,392,687</u>

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets Total
GOVERNMENTAL ACTIVITIES					
Instructional services					
Support services:					
Operation and maintenance of facilities	\$ (4,213,346)	-	\$ 283,152	\$ -	\$ (3,930,194)
Transportation	(549,765)	-	-	345,591	(204,174)
Interest and financing costs on long-term debt	(555,742)	-	-	-	(555,742)
	(405,326)	-	-	-	(405,326)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (5,724,179)</u>	<u>-</u>	<u>\$ 283,152</u>	<u>\$ 345,591</u>	<u>(5,095,436)</u>
GENERAL REVENUES					
Charges to school districts					1,968,516
Payments from primary government					4,045,578
Interest income					379,771
TOTAL GENERAL REVENUES					<u>6,393,865</u>
CHANGE IN NET ASSETS					1,298,429
NET ASSETS, BEGINNING OF YEAR					<u>3,165,988</u>
NET ASSETS, END OF YEAR					<u>\$ 4,464,417</u>

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Expenses	Charges for Services	Program Revenues	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets Total
GOVERNMENTAL ACTIVITIES					
Instructional services					
Support services:					
Operation and maintenance of facilities	(420,468)	-			(420,468)
Transportation	(451,638)	-			(451,638)
Interest on long-term debt	(387,311)	-			(387,311)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$(5,311,331)</u>		<u>\$ 327,115</u>	<u>\$ -</u>	<u>\$ (3,724,799)</u>
GENERAL REVENUES					
Charges to school districts					1,824,372
Payments from primary government					3,650,873
Interest income					116,869
TOTAL GENERAL REVENUES			<u>\$ 327,115</u>		<u>5,592,114</u>
CHANGE IN NET ASSETS					607,898
NET ASSETS, BEGINNING OF YEAR					<u>2,558,090</u>
NET ASSETS, END OF YEAR					<u>\$ 3,165,988</u>

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

	General Fund	Capital Projects Fund	Debt Service Fund	Totals	
				2007	2006*
ASSETS					
Cash and cash equivalents	\$2,213,022	-	-	\$2,213,022	\$1,897,818
Cash and cash equivalents - restricted	84,819	3,135,843	1,045,954	4,266,616	676,834
Receivables, net of allowance:					
Due from State of Delaware -					
Interest earnings	15,401	-	-	15,401	10,373
Other	-	10,035	3,761	13,796	-
TOTAL ASSETS	\$2,313,242	\$3,145,878	\$1,049,715	\$6,508,835	\$2,585,025
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 174,264	\$1,877,830	-	\$2,052,094	\$ 52,744
Accrued salaries	614,888	-	-	614,888	531,834
Due to State of Delaware - pension costs	93,300	-	-	93,300	67,694
Total Liabilities	882,452	1,877,830	-	2,760,282	652,272
FUND BALANCES:					
Reserved for encumbrances	-	-	-	-	5,796
Reserved for debt service	-	-	1,049,715	1,049,715	68,782
Reserved for building	84,819	1,268,048	-	1,352,867	608,052
Reserved for:					
Textbooks/library	-	-	-	-	846
Unreserved	1,345,971	-	-	1,345,971	1,249,277
Total Fund Balances	1,430,790	1,268,048	1,049,715	3,748,553	1,932,753
TOTAL LIABILITIES AND FUND BALANCES	\$2,313,242	\$3,145,878	\$1,049,715	\$6,508,835	\$2,585,025

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS
JUNE 30, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 3,748,553

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets. 15,313,095

Bond issuance costs resulted in deferred charges which will be amortized over the life of the new debt but do not represent current rights. 533,656

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Compensated absences	\$ (223,700)	
Notes payable and capital lease	<u>(14,907,187)</u>	<u>(15,130,887)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 4,464,417

The accompanying notes are an integral part of these financial statements.

	General Fund	Capital Projects Fund	Debt Service Fund	Totals	
				2007	2006
REVENUES:					
Charges to school districts	\$1,968,516	-	\$	\$ 1,968,516	\$ 1,824,372
State aid	4,045,578	-	-	4,045,578	3,650,873
Federal aid	137,915	-	-	137,915	222,794
Interest income	177,232	163,287	39,252	379,771	116,869
Contributions	145,237	345,591	-	490,828	104,321
TOTAL REVENUES	6,474,478	508,878	39,252	7,022,608	5,919,222
EXPENDITURES					
Current:					
Instruction	4,135,658	-	-	4,135,658	3,936,937
Operation and maintenance of facilities	364,516	-	-	364,516	235,086
Transportation	555,742	-	-	555,742	451,638
Debt service:					
Principal	-	6,251,043	420,260	6,671,303	1,126,913
Interest	-	-	405,326	405,326	387,311
Financing costs	-	533,656	-	533,656	-
Capital outlays:					
Property and equipment	1,350,233	6,429,186	-	7,779,419	25,803
TOTAL EXPENDITURES	6,406,149	13,213,885	825,586	20,445,620	6,163,688
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	68,329	(12,705,007)	(786,334)	(13,423,012)	(244,459)
OTHER FINANCING SOURCES (USES)					
Transfers in	36,988	324,050	1,804,255	2,165,293	-
Transfers out	(872,310)	(1,255,995)	(36,988)	(2,165,293)	-
Proceeds from financing	333,812	14,905,000	-	15,238,812	-
TOTAL OTHER FINANCING SOURCES (USES)	(501,510)	13,973,055	1,767,267	15,238,812	-
NET CHANGE IN FUND BALANCES	(433,181)	1,268,048	980,933	1,815,800	(244,459)
FUND BALANCES, BEGINNING OF YEAR	1,863,971	-	68,782	1,932,753	2,177,212
FUND BALANCES, END OF YEAR	\$1,430,790	\$ 1,268,048	\$1,049,715	\$ 3,748,553	\$ 1,932,753

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NEWARK CHARTER SCHOOL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,815,800

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$7,736,789	
Depreciation expense	<u>(231,356)</u>	7,505,433

Debt proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal - notes payable	6,671,303
Capital lease payment	1,466
New debt	(15,238,812)

Governmental funds report bond issuance costs as expenditures. However, this amount is reported on the statement of net assets as deferred charges and is amortized over the life of the debt.

533,656

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	<u>9,583</u>
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CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 1,298,429

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL
STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUND
JUNE 30, 2007

	<u>Student Activities Fund</u>	
	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	<u>\$ 81.889</u>	<u>\$ 72.361</u>
LIABILITIES		
Due to student groups	<u>\$ 81.889</u>	<u>\$ 72.361</u>

The accompanying notes are an integral part of these financial statements.

NEWARK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

Newark Charter School is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. Newark Charter School's initial charter was granted for a three-year period, renewable every five years thereafter.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state and federal funds, they may not charge tuition.

The financial statements of Newark Charter School have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of Newark Charter School (the "School") are described below.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Entity-wide and Fund Financial Statements

The entity-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

NEWARK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement and post-employment healthcare benefits, are recorded only when payment is due.

Charges to the school districts, state appropriations and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental funds:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- **Capital Projects Fund.** These funds are maintained to accumulate resources for the construction activity relating to the new building.
- **Debt Service Fund.** These funds are maintained to accumulate resources for the payment of interest and principal on long-term general obligation debt.

Additionally, the School reports the following fund type:

- **Student Activities Agency Fund** (a fiduciary fund). Accounts for assets held on behalf of student groups.

Amounts reported as program revenues include 1) charges to students for special fees, supplies or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

NEWARK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion). At June 30, 2007, the School had no such activity.

Advances between funds, when present in the financial statements, are offset by fund balance reserves in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. At June 30, 2007, the School had no such activity.

The School considers all accounts receivable at year end to be collectible; therefore, no allowance for doubtful accounts has been recorded.

Capital Assets

Capital assets, which include buildings, and furniture and equipment, are reported in the entity-wide financial statements. The School defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is capitalized.

Buildings, and furniture and equipment of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

Buildings	40 years
Furniture and fixtures	3 years
Equipment	5 years

NEWARK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the entity-wide financial statements. The liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

Vacation - Twelve-month employees can accumulate up to 10 days of vacation. Any days in excess of 10 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

Sick Leave - Sick leave allowances are as follows: teachers shall be allowed 10 days of sick leave per year and annual employees earn one day of sick leave for each month worked. Any unused sick days shall be accumulated to the employee's credit up to a maximum of 90 days. Compensation for accumulated sick days is received when employees (a) qualify and apply for state pension and are paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days; or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 90 days.

The compensated absences liability was \$223,700 and \$233,283 at June 30, 2007 and 2006, respectively.

Restricted Net Assets

Restricted net assets are comprised of assets, net of related liabilities, that are required to be set aside for debt service payments. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose.

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and has been restated and reclassified, as needed, from the presentation in the School's June 30, 2006 basic financial statements to be comparative with the current year presentation.

NEWARK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2007 and 2006, the School had a cash equivalent balance of \$6,561,527 and \$2,647,013, respectively. Of those amounts, \$2,722,947 and \$2,561,104 as of June 30, 2007 and 2006, respectively, were part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

At June 30, 2007 and 2006, the reported amount of the School's deposits outside of the State Treasurer's Office was \$3,838,580 and \$85,909, respectively. The bank balance at June 30, 2007 and 2006 was \$3,838,589 and \$85,914, respectively, of which \$100,000 was covered by federal depository insurance and \$3,738,589 and \$0, respectively, was not insured or collateralized and, therefore, was subject to custodial credit risk.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 is as follows:

Governmental Activities:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
General capital assets not being depreciated:				
Land	\$ 846,710	\$ 765,181	\$ -	\$ 1,611,891
Construction-in-progress	<u>7,190</u>	<u>-</u>	<u>(7,190)</u>	<u>-</u>
Total general capital assets not being depreciated	<u>853,900</u>	<u>765,181</u>	<u>(7,190)</u>	<u>1,611,891</u>
General capital assets being depreciated				
Buildings	7,468,590	6,942,665	-	14,411,255
Furniture and equipment	<u>219,156</u>	<u>36,133</u>	<u>-</u>	<u>255,289</u>
Total general capital assets being depreciated	7,687,746	6,978,798	-	14,666,544
Accumulated depreciation	<u>(733,984)</u>	<u>(231,356)</u>	<u>-</u>	<u>(965,340)</u>
Total general capital assets being depreciated, net	<u>6,953,762</u>	<u>6,747,442</u>	<u>-</u>	<u>13,701,204</u>
Governmental Activities, Net	<u>\$7,807,662</u>	<u>\$7,512,623</u>	<u>\$ (7,190)</u>	<u>\$15,313,095</u>

NEWARK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

Depreciation expense was charged to the following governmental activities:

Instructional services	\$ 44,641
Operations and maintenance of facilities	<u>186,715</u>
	<u>\$ 231,356</u>

NOTE 4 LONG-TERM DEBT

Wells Fargo Bond

Revenue Bond, Series 2006, 4.0% to 5.0%, October 31, 2006 to December 31, 2036. The purpose of this issue was to provide funding for capital projects. The first principal payment is due in December 2008.

\$14,905,000

The total principal and interest maturities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ 729,437	\$ 729,437
2009	245,000	724,856	969,856
2010	255,000	714,856	969,856
2011	265,000	704,456	969,456
2012	275,000	693,484	968,484
2013-2017	1,595,000	3,263,306	4,858,306
2018-2022	2,025,000	2,824,375	4,849,375
2023-2027	2,605,000	2,248,625	4,853,625
2028-2032	3,350,000	1,508,000	4,858,000
2033-2037	<u>4,290,000</u>	<u>557,500</u>	<u>4,847,500</u>
Total	<u>\$14,905,000</u>	<u>\$13,968,895</u>	<u>\$28,873,895</u>

A schedule of changes in debt is as follows:

	<u>Outstanding</u>			<u>Outstanding</u>	<u>Amounts</u>
	<u>6/30/2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/2007</u>	<u>Due Within</u>
					<u>One Year</u>
Governmental Activities:					
Note payable	\$6,337,491	\$15,238,812	\$(6,671,303)	\$14,905,000	\$ -
Capital lease agreement	3,653	-	(1,466)	2,187	1,468
Compensated absences	<u>233,283</u>	<u>-</u>	<u>(9,583)</u>	<u>223,700</u>	<u>-</u>
Total Governmental Activities	<u>\$6,574,427</u>	<u>\$15,238,812</u>	<u>\$(6,682,352)</u>	<u>\$15,130,887</u>	<u>\$ 1,468</u>

NEWARK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan which is a cost-sharing, multiple-employer defined benefit public employees retirement system (the "State PERS"). The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. All eligible state employees are required to contribute to the pension plan according to Chapter 55, Title 29 of the Delaware Code.

All full-time and regular part-time employees are eligible to participate in the State PERS. The State PERS provides pension, disability and death benefits. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service - age 55
 - b. 25 years service - any age
- Service retirement:
 - a. 15 years service - age 60
 - b. 30 years service - any age
 - c. 5 years service - age 62
- Disability retirement:
 - a. 5 years service and proof of disability
- Vested pension - an employee can vest pension rights after five years of service.

The State PERS issues a publicly available financial report that includes the financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904, or by calling 1-800-722-7300.

Funding Policy

Employees of the School are required to contribute three percent of earnings in excess of \$6,000. The School's contribution to the State PERS for the years ended June 30, 2007 and 2006 was \$395,494 and \$381,612, respectively.

NOTE 6 LEASING ARRANGEMENTS

Operating Lease

The School leases its copier equipment under an operating lease arrangement expiring in August 2010. Total rental expense for the years ended June 30, 2007 and 2006 was \$26,508 and \$26,280, respectively.

NEWARK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LEASING ARRANGEMENTS (cont'd)

At June 30, 2007, the minimum future rental payments under noncancelable leasing arrangements having remaining terms in excess of one year for the remaining years and in the aggregate are:

Years Ending June 30.

2008	\$ 26,508
2009	26,508
2010	<u>17,672</u>

Minimum future rental payments required \$ 70,688

Capital Lease

The School leases its floor scrubber equipment under a capital leasing arrangement expiring in November 2008. The equipment has an original purchase price of \$7,000, with a bargain purchase option at the end of the lease term for the sum of one dollar. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The assets acquired through the capital lease are as follows:

Furniture and equipment	\$ 7,000
Less: Accumulated depreciation	<u>(4,900)</u>
Total	<u>\$ 2,100</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007 were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,468	\$ 139	\$ 1,607
2009	<u>719</u>	<u>11</u>	<u>730</u>
	<u>\$ 2,187</u>	<u>\$ 150</u>	<u>\$ 2,337</u>
Total minimum lease payments			<u>\$ 2,337</u>
Present Value of Minimum Lease Payments			<u>\$ 2,187</u>

NEWARK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 7 RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in any of the past two years. There were no significant reductions in coverage compared to the prior year.

NOTE 8 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants

The School receives significant financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the general fund. The School's administration believes such disallowance, if any, would be immaterial.

Construction Commitments

As of June 30, 2007, the School was in the process of planning an expansion through the construction of a new building. Construction commitments completed to date are as follows:

<u>Contract</u>	<u>Contract Amount</u>	<u>Commitments</u>	<u>Completed to June 30, 2007</u>
Construction manager	<u>\$ 7,539,480</u>	<u>\$ 2,654,512</u>	<u>\$4,884,968</u>

NOTE 9 RELATED PARTY TRANSACTIONS

Newark Charter School contracts various accounting services throughout the year with Innovative Schools Development Corporation (ISDC), at a rate of \$1,600 per month. The President of the Board of Directors of Newark Charter School is also the Chief Executive Officer of ISDC.

NOTE 10 LINE OF CREDIT

The School has a line of credit under which it may borrow up to \$100,000 at prime rate plus 1.50 percent. This line of credit is unsecured. The interest rate at June 30, 2007 was 9.75 percent and no borrowings occurred during the year.

REQUIRED SUPPLEMENTAL INFORMATION SECTION

NEWARK CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Charges to school districts	\$1,814,400	\$1,814,400	\$1,968,516	\$ 154,116
State aid	3,664,000	3,664,000	4,045,578	381,578
Federal aid	125,000	125,000	137,915	12,915
Interest income	70,000	70,000	177,232	107,232
Contributions	80,000	80,000	145,237	65,237
Other local sources	145,000	145,000	-	(145,000)
TOTAL REVENUES	5,898,400	5,898,400	6,474,478	576,078
EXPENDITURES				
Current:				
Salaries	2,616,696	2,616,696	2,788,451	(171,755)
Employment costs	1,020,511	1,020,511	986,539	33,972
Travel	9,000	9,000	2,776	6,224
Contractual services	269,300	269,300	145,221	124,079
Communications	6,000	6,000	71,370	(65,370)
Public utilities service	105,000	105,000	151,069	(46,069)
Insurance	40,000	40,000	35,397	4,603
Transportation - buses	550,800	550,800	555,742	(4,942)
Repairs and maintenance	77,000	77,000	140,425	(63,425)
Supplies and materials	193,500	193,500	178,926	14,574
Capital outlays:				
Equipment	42,500	42,500	79,139	(36,639)
Property	750,000	750,000	1,271,094	(521,094)
Debt service:				
Principal	1,086,520	1,086,520	-	1,086,520
TOTAL EXPENDITURES	6,766,827	6,766,827	6,406,149	360,678
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(868,427)	(868,427)	68,329	936,756
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	36,988	36,988
Transfers out	-	-	(872,310)	(872,310)
Proceeds from financing	-	-	333,812	333,812
TOTAL OTHER FINANCING USES	-	-	(501,510)	(501,510)
NET CHANGE IN FUND BALANCE	(868,427)	(868,427)	(433,181)	435,246
FUND BALANCE, BEGINNING OF YEAR	1,401,486	1,401,486	1,863,971	462,485
FUND BALANCE, END OF YEAR	\$ 533,059	\$ 533,059	\$1,430,790	\$ 897,731

NOTE: The School's budget is presented on the modified accrual basis of accounting.

SUPPLEMENTAL SECTION

NEWARK CHARTER SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2007

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
ASSETS				
Cash and investments	\$ 223,571	\$1,989,451	\$ -	\$2,213,022
Cash and cash equivalents	-	84,819	-	84,819
Receivables, net of allowance: Other governments	-	15,401	-	15,401
TOTAL ASSETS	<u>\$ 223,571</u>	<u>\$2,089,671</u>	<u>\$ -</u>	<u>\$2,313,242</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 148,582	\$ 25,682	\$ -	\$ 174,264
Accrued salaries	-	614,888	-	614,888
Due to State of Delaware - pension costs	-	93,300	-	93,300
TOTAL LIABILITIES	<u>148,582</u>	<u>733,870</u>	<u>-</u>	<u>882,452</u>
FUND BALANCES:				
Reserved for building	-	84,819	-	84,819
Unreserved:				
General Fund	74,989	1,270,982	-	1,345,971
TOTAL FUND BALANCES	<u>74,989</u>	<u>1,355,801</u>	<u>-</u>	<u>1,430,790</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 223,571</u>	<u>\$2,089,671</u>	<u>\$ -</u>	<u>\$2,313,242</u>

NEWARK CHARTER SCHOOL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
REVENUES				
Charges to school districts	\$ -	\$1,968,516	\$ -	\$1,968,516
State aid	4,045,578	-	-	4,045,578
Federal aid	-	-	137,915	137,915
Interest income	-	177,232	-	177,232
Contributions	-	145,237	-	145,237
TOTAL REVENUES	<u>4,045,578</u>	<u>2,290,985</u>	<u>137,915</u>	<u>6,474,478</u>
EXPENDITURES				
Current:				
Instruction	2,421,607	1,576,236	137,815	4,135,658
Operation and maintenance of facilities	226,681	137,835	-	364,516
Transportation	335,670	220,072	-	555,742
Capital Outlays:				
Property and equipment	135,012	1,215,121	100	1,350,233
TOTAL EXPENDITURES	<u>3,118,970</u>	<u>3,149,264</u>	<u>137,915</u>	<u>6,406,149</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>926,608</u>	<u>(858,279)</u>	<u>-</u>	<u>68,329</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	36,988	-	36,988
Transfers out	(872,310)	-	-	(872,310)
Proceeds from financing	-	333,812	-	333,812
TOTAL OTHER FINANCING SOURCES (USES)	<u>(872,310)</u>	<u>370,800</u>	<u>-</u>	<u>(501,510)</u>
NET CHANGE IN FUND BALANCES	54,298	(487,479)	-	(433,181)
FUND BALANCES, BEGINNING OF YEAR	<u>20,691</u>	<u>1,843,280</u>	<u>-</u>	<u>1,863,971</u>
FUND BALANCES, END OF YEAR	<u>\$ 74,989</u>	<u>\$1,355,801</u>	<u>\$ -</u>	<u>\$1,430,790</u>

NEWARK CHARTER SCHOOL
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

EXPENDITURES

Current:

Salaries	\$2,788,451
Employment costs	986,539
Travel	2,776
Contractual services	145,221
Communications	71,370
Public utilities service	151,069
Insurance	35,397
Transportation - buses	555,742
Repairs and maintenance	140,425
Supplies and materials	178,926

Capital Outlays:

Equipment	79,139
Property	<u>1,271,094</u>

TOTAL EXPENDITURES	<u>\$6,406,149</u>
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**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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September 25, 2007

Board of Directors
Newark Charter School
Newark, Delaware

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining information of Newark Charter School, Newark, Delaware as of and for the year ended June 30, 2007 and have issued our report thereon dated September 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newark Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Newark Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Newark Charter School

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newark Charter School's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management, the Department of Education, Office of the Governor, Office of the Controller General, Office of Attorney General, Office of Management and Budget, Office of Auditor of Accounts and the Department of Finance; and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

Barbacane, Thornton & Company

BARBACANE, THORNTON & COMPANY

NEWARK CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.